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TO: Supervisor Janice Hahn, Chair
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Kathryn Barger

FROM: Arlene Barrera Arlene Barrera
Auditor-Controller

SUBJECT: **LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION – ADMINISTRATIVE OPERATIONS REVIEW (July 30, 2019, Board Agenda Item 11)**

On July 30, 2019, the Board of Supervisors instructed the Auditor-Controller to conduct an audit of the Los Angeles County Employees Retirement Association's (LACERA) processes and controls over their administrative operations, which would include, but not be limited to, an analysis of LACERA's cost/budget increases, travel and training expenditures, and overall administrative expense compared to other public employee retirement agencies and/or industry benchmarks to determine whether LACERA provides adequate stewardship over administrative funds and evaluate whether additional targeted reviews would be beneficial.

Background and Scope

LACERA is an independent governmental entity that is responsible for administering retirement, healthcare, and death benefits to over 170,000 active and retired members. LACERA is overseen by nine Board of Investments (Board) members, responsible for establishing LACERA's investment policy and objectives, as well as exercising authority and control over the investment management of the trust fund, and 11 Board of Retirement (Board) members, responsible for the administration of the retirement system, the retiree healthcare program, and the review and processing of disability retirement applications.

Our review focused on evaluating certain factors that drive LACERA's administrative costs and evaluating LACERA's adoption of best practices. Our review included interviewing LACERA Board members, management and staff, examining policies and procedures, conducting detailed walkthroughs of activities that contribute to LACERA's administrative costs, including spending practices related to offsite meetings, travel, training, bonuses, etc. We also evaluated if LACERA is adequately safeguarding equipment and operating with sufficient technological resources. In addition, we benchmarked LACERA's administrative costs and trends against five public employee retirement agencies (California Public Employees' Retirement System [CalPERS], California State Teachers' Retirement System [CalSTRS], Los Angeles City Employees' Retirement System [LACERS], Orange County Employees Retirement System [OCERS], and San Diego County Employees Retirement Association [SDCERA]).

Our review was limited to an overview of LACERA's processes and controls over administrative accounts. While our review included tests to confirm the existence of processes and controls (e.g., interviews and walkthroughs), it did not include extensive tests to identify whether processes and controls were consistently operating as designed or whether LACERA continually complied with best practices, and LACERA's requirements. In addition, our review did not include LACERA's processes and controls over purchasing (credit cards, reimbursements, contracts, etc.) or payroll and personnel (timekeeping, leave accounting, workers' compensation, etc.).

Summary of Findings

LACERA is subject to the County Employees Retirement Law of 1937 which states that administrative costs may not exceed .21% of the retirement agency's actuarial accrued liabilities. With over $68.5 billion of actuarial accrued liability, LACERA's maximum allowable administrative costs for Fiscal Year (FY) 2019-20 is $143.9 million. LACERA's FY 2017-18 administrative costs totaled .13% of their actuarial accrued liabilities, which is below the .21% threshold and within the range of the other public employee retirement agencies that we benchmarked. However, a number of agencies, including those that are not subject to the .21% threshold, have lower administrative cost percentages, which indicates that opportunities exist for LACERA to adopt best practices to be more cost efficient.

LACERA consistently operates below the maximum allowable costs and budgeted $94.6 million for LACERA's administrative operations in FY 2019-20. We also noted that LACERA consistently operates within their administrative expenditures budget. While we noted LACERA's administrative expenditures increased by approximately 25% between FY 2014-15 and FY 2017-18 (from $62.6 million to $78.2 million), this is within the range reported by other public employee retirement agencies that we benchmarked.

However, throughout this report we identify a number of spending practices that suggest LACERA Boards/management need to establish a stronger tone at the top regarding

LACERA's commitment to fiduciary obligation by improving fiscal stewardship over some of their administrative costs, strengthening internal controls, and implementing/revising policies and procedures. The following are examples of areas needing improvement:

- **Offsite Meetings/Retreats** – LACERA Boards/management should consider reducing the cost of the annual two-day offsite Board meetings and/or other retreats. In 2019 LACERA spent $186,000 for two offsite Board meetings, which included meals and alcohol. LACERA managers also held a separate one-day retreat totaling approximately $17,000, which included $51/person for unlimited coffee.

- **Bonuses** – LACERA Boards/management should consider improving controls over bonuses to ensure all bonuses are justified and approved timely, and periodically monitored to ensure bonuses remain valid. We noted instances where bonuses for staff performing work outside their normal responsibilities were approved retroactively up to six years in arrears without an explanation for the delayed request.

- **Equipment Management** – LACERA Boards/management should consider implementing procedures to periodically inventory all equipment, and investigate missing items. Management indicated that an organization-wide portable equipment inventory was last conducted in 2003. During our review, LACERA was conducting a physical equipment inventory and although it is still ongoing (90% of the locations have been counted), LACERA only accounted for approximately 1,913 (62%) of 3,091 reported assets.

- **Education/Travel** – LACERA Boards/management should consider further strengthening the recently revised Education and Travel Policy (Policy). While LACERA Board members took steps to update their Policy as recommended by a recent LACERA internal audit, we believe the Policy can be strengthened further. For example, the revised Policy continues to allow practices that appear to be very generous compared to the County of Los Angeles (County) or benchmarked public employee retirement agencies, includes unclear language (e.g., "allowed when reasonably necessary"), and does not require travelers to submit itemized receipts. In FY 2018-19 LACERA's Board members took 73 trips totaling $326,000 and management/staff took 336 trips totaling $475,000. As indicated in LACERA's recent internal audit, LACERA incurred significantly higher costs for Board educational travel in FY 2018-19 than its larger peers - CalPERS, a $350 billion fund as of June 2018, or CalSTRS, a $226.1 billion fund as of May 2019.

- **Other Matters** – As part of assessing processes and controls over administrative accounts, we interviewed over 25 LACERA key personnel and Board members. While this sample was limited and not intended to be representative of LACERA as a whole, several interviewees voluntarily reported an environment of

entitlement, favoritism, fear and retaliation and indicated that LACERAs organizational culture should be improved. The interviewees indicated that they were reluctant to speak with us and preferred to meet offsite because they feared retaliation. Interviewees also indicated they do not trust LACERA's fraud hotline process due to a perceived lack of independence. LACERA's Internal Audit Division indicated that the hotline received one call over a six-month period. LACERA Boards/management are in the process of hiring an independent consultant to review LACERA's work culture. The Boards/management should consider sharing our report with the independent consultant to ensure that the consultant is aware of issues discussed throughout the report.

Review of Report

We discussed the results of our review with LACERA. LACERA's response is attached and indicates they do not agree with all our specific findings; nonetheless, they are in the process of addressing some issues, and they will share our report with the LACERA Boards and management for their consideration.

LACERA's response also indicates we exceeded our audit scope by reviewing non-financial issues which are described in the last section of our report, entitled *Other Matters*. These concerns regarding LACERA's organizational culture were brought to our attention by interviewees during the course of our audit and we would have been remiss in not reporting them. In addition, LACERA's response states that our report does not dispute they are effective in serving its members. However, our scope was limited to an overview of LACERA's processes and controls over administrative accounts, therefore we did not evaluate their effectiveness in serving its members.

We thank LACERA management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Mike Pirolo at (213) 253-0100.

AB:PH:MP:YK:cc

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Steven P. Rice, Chief Legal Counsel, LACERA
Celia Zavala, Executive Officer, Board of Supervisors
Audit Committee
Countywide Communications

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION – ADMINISTRATIVE OPERATIONS REVIEW

Background and Scope

The Los Angeles County Employees Retirement Association (LACERA) is an independent governmental entity that is responsible for administering retirement, healthcare, and death benefits to over 170,000 active and retired members. LACERA is overseen by nine Board of Investments (BOI or Board) members, responsible for establishing LACERA's investment policy and objectives, as well as exercising authority and control over the investment management of the trust fund, and 11 Board of Retirement (BOR or Board) members, responsible for the administration of the retirement system, the retiree healthcare program, and the review and processing of disability retirement applications.

LACERA is subject to the County Employees Retirement Law of 1937 (CERL) which states that administrative costs may not exceed .21% of the retirement agency's actuarial accrued liabilities. With over $68.5 billion of actuarial accrued liability, LACERA's maximum allowable administrative costs for Fiscal Year (FY) 2019-20 is $143.9 million. However, LACERA consistently operates below the maximum allowable costs and budgeted $94.6 million for LACERA's administrative operations in FY 2019-20.

On July 30, 2019, the Board of Supervisors instructed the Auditor-Controller to conduct an audit of LACERA's processes and controls over their administrative operations, which would include, but not be limited to, an analysis of LACERA's cost/budget increases, travel and training expenditures, and overall administrative expense compared to other public employee retirement agencies and/or industry benchmarks to determine whether LACERA provides adequate stewardship over administrative funds and evaluate whether additional targeted reviews would be beneficial.

With the support and active participation of LACERA, we have completed a review of some of LACERA's administrative operations and internal controls as directed by the Board of Supervisors. Our review focused on reviewing certain factors that drive LACERA's administrative costs and evaluating LACERA's adoption of best practices.

Our review included interviewing LACERA's Board members, management, and staff, examining policies and procedures, conducting detailed walkthroughs of activities that contribute to LACERA's administrative costs, including spending practices related to offsite meetings, travel, training, bonuses, etc. We also evaluated if LACERA is adequately safeguarding equipment and operating with sufficient technological resources. In addition, we benchmarked LACERA's administrative costs and trends against five public employee retirement agencies (California Public Employees' Retirement System [CalPERS], California State Teachers' Retirement System [CalSTRS], Los Angeles City Employees' Retirement System [LACERS], Orange County Employees Retirement System [OCERS], and San Diego County Employees Retirement Association [SDCERA]).

We noted various opportunities for LACERA to improve and strengthen internal processes and controls.

Budget and Expenditures

LACERA is subject to CERL which states that administrative costs may not exceed .21% of the retirement agency's actuarial accrued liabilities. As indicated in the table below, LACERA's FY 2017-18 administrative costs totaled .13% of their actuarial accrued liabilities, which is below the .21% threshold and within the range of the other public employee retirement agencies that we benchmarked. However, as shown below, a number of agencies, including those that are not subject to the .21% threshold, have lower administrative cost percentages, which indicates that opportunities exist for LACERA to adopt best practices to be more cost efficient.

Administrative Costs to Actuarial Accrued Liabilities		
Public Employee Retirement Agency	**FY 2017-18 Administrative Costs (in millions)**	**% of actuarial accrued liabilities**
LACERA	$ 78.2	0.13%
CalPERS [1]	886.3	0.20%
CalSTRS[1]	221.4	0.08%
OCERS[2]	18.3	0.10%
LACERS[1]	16.4	0.09%
SDCERA[2]	13.2	0.09%

Although we noted LACERA's expenditures increased 25% between FY 2014-15 and FY 2017-18 (from $62.6 million to $78.2 million), the increase is within the range reported by other public employee retirement agencies that we benchmarked. The benchmarked public employee retirement agencies ranged between a 6% decrease to a 50% increase over that same period.

In addition, we reviewed LACERA's overall budget and expenditures for each of LACERA's divisions over the same three years and noted that the individual divisions generally operated within their budget. However, we noted the following divisions had expenditure increases that exceeded LACERA's overall 25% expenditure increase: Investment Office - $4.5 million (76%), Benefits - $2.1 million (32%), Legal Services - $1.6 million (41%).

[1] CERL applies only to California's county pension funds. CalPERS, CalSTRS, and LACERS are not subject to CERL's expenditure limits based on the actuarial accrued liabilities limits.
[2] CERL does not specify the time period for which the actuarial accrued liabilities should be calculated. These public employee retirement agencies may have selected a different actuarial accrued liabilities valuation date, resulting in a higher/lower actuarial accrued liabilities percentage.

We also noted that LACERA can improve clarity and transparency by recording expenditures in units/divisions where they are incurred. For example, we noted that Board offsite meetings and meals, discussed further below, are budgeted and reported as miscellaneous expenses under the Executive Office instead of the Boards. Reporting expenditures in units/divisions where they are incurred improves transparency and simplifies budget and related policy decisions.

Recommendations

LACERA Boards/management consider:

1. **Analyzing LACERA's administrative costs, evaluating other public employee retirement agencies' administrative costs, and adopting best practices to be more cost efficient.**

2. **Implementing processes to ensure expenditures are reported in units/ divisions where they are incurred.**

Spending Practices

As mentioned above, LACERA operated within their overall administrative expenditures budget. However, we identified a number of spending practices that suggest LACERA Boards/management should consider re-evaluating policies associated with the spending of administrative funds. For example, we noted concerns in the following areas:

- Offsite meetings and retreats for Board members and staff
- Staff bonuses
- Travel for Board members and staff
- Electronic devices for Board members

Each of these areas is discussed in more detail below. Based on the observations we made during our review, we believe that overall, LACERA could benefit from an organization-wide re-evaluation of certain spending practices of taxpayer and County of Los Angeles (County) employee funded pension contributions. We believe there is an opportunity for LACERA Boards and management to more clearly demonstrate LACERA's expressed commitment to their fiduciary and fiscal obligations to current and future pensioners, and establish a more fiscally prudent tone at the top.

Recommendation

3. **LACERA Boards/management consider re-examining its administrative spending and issue a memo to all LACERA Board members and staff to reinforce the organization's commitment to upholding their fiduciary obligation.**

The remainder of this report discusses our specific observations of LACERA's spending practices over certain administrative funds that we noted during our review. In addition, while our focus was to review select administrative expenditures, matters came to our attention during the course of our review involving the overall organization culture. These issues are discussed at the end of this report.

Offsite Board Meetings/Retreats

Annually, the BOI and the BOR each hold two-day offsite Board meetings to develop organizational strategies and conduct trainings. For the three years ending June 30, 2018, offsite Board meeting costs have increased by 166% ($80,000 to $213,000) and exceeded their budget between 113% to 287%. In addition, we noted that LACERA increased the offsite Board meetings budget from $150,000 to $200,000 (33%) for FY 2019-20.

As an example of an offsite meeting, LACERA spent a total of $186,000 in 2019 for two offsite Board meetings, lasting two days each, held in Santa Monica and Long Beach. The total cost included over $50,000 for lodging and incidentals, $64,000 for meals (including alcohol), and $72,000 for room rental, audio-visual equipment, etc.

LACERA also periodically holds separate management retreats. A recent one-day retreat at a hotel in Pasadena for 50 managers totaled approximately $17,000, which included $51/person for unlimited coffee.

As a comparison, the County has very strict and explicit written rules regarding retreats in its County Code and County Fiscal Manual. Among the requirements, County departments cannot spend more than the limits specified in the maximum reimbursement rates for travel, meals, lodging, and incidental expenses (generally $229.25 for lodging, $13.75 for breakfast, $18.00 for lunch, etc.). In addition, County departments must identify cost-control methods that were utilized in the planning and execution of the retreat on a report to the County Chief Executive Office (County CEO), which must include itemized costs per employee. The County CEO is also required to submit a semi-annual report to the Board of Supervisors on the Countywide retreat activities. LACERA should consider adapting similar retreat/offsite meeting policies.

Recommendations

LACERA Boards/management consider:

4. **Evaluating benefits and costs of Board and management offsite meetings/retreats and implementing changes to reduce associated costs.**

5. **Adopting similar offsite meeting/retreat policies as the County.**

Bonus Monitoring and Oversight

LACERA does not have formal written procedures for initiating and approving bonuses. Management indicated that division managers submit bonus requests to the Assistant Executive Officer which are then forwarded to the Human Resources (HR) manager and LACERA's Chief Executive Officer (CEO) for approval. We reviewed LACERA's bonus monitoring and oversight and noted the following:

Bonus Approval/Timeliness

LACERA needs to implement procedures and oversight to ensure that bonuses are appropriate and requested/approved timely. We reviewed a judgmental sample of 12 bonuses and found:

- **Retroactive Bonuses** – We noted two instances where Additional Responsibilities (AR) bonuses were requested and approved in August 2019 for work performed since 2013 (i.e., retroactive to 2013) with limited written justification. Specifically, the justification indicated that the bonus recipient performed higher level administrative/technical duties since 2013, without an explanation for the delayed request. Although management approved the AR bonuses, when significant time lapses it is difficult to validate/verify that the employees performed the eligible duties.

- **Bonus Manipulation/Preferential Treatment** – In another instance, in October 2017 LACERA temporarily promoted an employee to a higher-level position that was not approved by the County CEO by revising the organizational chart to create the new position. For this temporary promotion, the employee received a Superior-Subordinate (SS) bonus of approximately $5,000 per month (33%) more than the employee's previous salary. A year later, management simultaneously pre-approved a 4.5% salary increase and an 11% AR bonus to become effective if/when the manager returned to his/her original assignment. In December 2018, the manager was returned to the original position and while the SS bonus was cancelled, the 11% pre-approved AR bonus was implemented.

- **Classification Circumvention** – LACERA approved an AR bonus to a manager for performing work outside of their classification, and the bonus approval documentation indicated that the bonus would be cancelled when the manager's position was appropriately reclassified to include the additional duties. However, when the County approved the reclassification, it did not include a salary increase so LACERA management decided to continue the bonus even though the manager is no longer working outside of their classification.

We also noted that 34 (9%) of LACERA's 374 non-investment management/staff receive AR bonuses for performing work that is above their class specifications. In comparison, we surveyed four County departments (Chief Executive Office, Auditor-Controller, Board of Supervisors, and County Counsel) and noted that less than 1% of staff/management

receive AR bonuses. An excessive number of employees working above their class specifications may be an indication of mis-aligned job assignments, budgeted positions and/or class specifications, and increases the potential for abuse.

Periodic Bonus Reviews

LACERA management indicated that in June 2019 they implemented a process to review AR bonuses for eligibility every six months. However, LACERA does not have organization-wide bonus reports or a formal written policy to periodically review all bonuses and to cancel bonuses when recipients are no longer eligible. We noted that some LACERA staff have been receiving duty related bonuses (e.g., bilingual, AR) for up to ten years and without performing periodic reviews, management cannot ensure that staff continue to be eligible. In comparison, the County requires departments to review all bonuses at least annually.

Recommendations

LACERA Boards/management consider:

6. **Establishing written policies/procedures to ensure that bonuses are implemented timely and adequately documented, and to periodically review all bonuses to ensure continued eligibility.**

7. **Developing bonus reports to improve bonus monitoring and oversight.**

8. **Reviewing all bonuses, cancel bonuses that are no longer applicable, and seek recovery for any overpayments.**

9. **Working with the County of Los Angeles Chief Executive Office to ensure budgeted positions align with job assignments.**

Wireless Devices and Equipment Management

Wireless Devices

LACERA's Systems Division (Systems) is responsible for maintaining and tracking all wireless (cellular phones, tablets, laptops) devices. Systems management indicated they reconcile their internal lists of mobile devices and wireless accounts, but they do not reconcile mobile devices to authorized users or wireless bills. As a result, we noted that LACERA may be paying for unneeded phone services. Specifically, LACERA's internal records showed approximately 180 wireless devices; however, LACERA's wireless bills show that LACERA maintains approximately 215 wireless lines each month.

We also reviewed LACERA's current list of active wireless devices and noted instances where the device holder no longer works with/for LACERA. For example, an individual terminated service in 2017, but LACERA continued to pay for the monthly services, and

its internal reports indicated that the person's phone is still active. Subsequently, LACERA indicated that they had taken possession of the phone and were continuing to use it, but they had not reassigned the phone to an individual. We noted that between June 1, 2019 and August 31, 2019, LACERA's wireless bills averaged approximately $8,000 a month. Lack of sufficient processes and procedures to reconcile wireless devices increase the risk of fraud/abuse and inefficient use of resources.

Equipment

We reviewed LACERA's practices related to managing portable equipment (e.g. tablets, desktops/laptops, printers, fax machines, cell phones) and noted the following:

- **Portable Equipment Inventory** - LACERA management indicated that the most recently completed organization-wide inventory was conducted in 2003. In addition, although LACERA conducts periodic cycle counts (counting all equipment in a given area), they do not reconcile the count to a master inventory list and investigate discrepancies. As a result, management cannot ensure that all purchased equipment is accounted for. During our review, LACERA was conducting a physical equipment inventory and, although it is still ongoing (approximately 90% of the locations have been counted), LACERA has only accounted for 1,913 (62%) of 3,091 reported assets.

- **Equipment Assignment** - While other public employee retirement agencies we reviewed provide Board members with a tablet and/or cell phone to perform their duties, LACERA's Board members may receive tablets, desktops/laptops, printers, fax machines, data lines, home Internet service, and more to perform their duties. We noted that some Board members received two LACERA-issued laptops and two tablets or are reimbursed for the full cost of their home Internet when the LACERA-issued tablets already include cellular Internet service.

Recommendations

LACERA Boards/management consider:

10. Implementing procedures to periodically reconcile wireless devices, assigned users, and wireless bills.

11. Implementing procedures to periodically inventory all equipment, investigate any missing items, and maintain documentation.

12. Identifying all equipment assigned to Board members and staff, evaluate reasonableness, and establish policies and procedures related to equipment assignments, specifying the equipment type and quantity allowed per Board member/staff.

Travel/Training

In FY 2018-19, LACERA's Board members took 73 trips totaling $326,000 and management/staff took 336 trips totaling $475,000. During the same time period, LACERA's 15 Board members and 410 staff spent $164,000 and $137,000 respectively on educational conferences and administrative meetings.

In June 2019, LACERA's Internal Audit Division (IA) issued a report on Board and Staff Education and Travel and included recommendations to increase accountability and improve fiduciary oversight and control. The IA's report also indicated LACERA incurred significantly higher costs for Board educational travel in FY 2018-19 than its larger peers - CalPERS, a $350 billion fund as of June 2018, or CalSTRS, a $226.1 billion fund as of May 2019. Based on our review, findings and recommendations included in IA's report appear appropriate. Subsequently, in August 2019, LACERA Boards approved the revised Education and Travel Policy (Policy). However, we reviewed the revised Policy and noted the following:

Travel Policy

The revised Policy related to travel lacks key controls and does not comply with best practices established by other public employee retirement agencies, County, and/or IA's recommendations in the following areas:

Cost Effectiveness

- Allows Board members to travel within California without pre-approval if costs are below $2,000 per trip and $10,000 annually. In comparison, the County requires pre-approval on all travel arrangements regardless of the cost.

- Board members/staff may upgrade to business class when total trip time, including layovers, exceeds five hours or for international flights. In addition, LACERA will pay the additional cost for coach/economy class seats that advertise additional leg room regardless of trip time. None of the five public employee retirement agencies we benchmarked allowed business class upgrades. County business travelers are also required to travel in coach/economy class.

- Lodging per diem limits appear excessive. The Policy permits up to three times the Internal Revenue Service (IRS) per diem rate. For example, the IRS per diem rate for Santa Monica is $248 a night, but per LACERA Policy travelers may spend up to $744 (or three times the per diem rate of $248) a night for lodging in Santa Monica. LACERA's per diem rates are higher than all of the agencies we benchmarked.

- Board members/staff may be reimbursed for gym fees, expedited security, etc., which are not allowed by other public employee retirement agencies we benchmarked, or the County.

- The Policy does not prohibit the purchase of expensive refundable tickets or high-fare ride sharing services such as Uber Black and Lyft Premier, etc. In comparison, the County's policy generally requires the travelers to use the least expensive method of travel/transportation.

- The Policy allows travelers to request per diem reimbursement even when meals are provided by the hotel/conference or during a flight. County policies prohibit this practice.

In addition, while the Policy generally requires pre-approval for travel, it specifically authorizes Board members to waive compliance with <u>any</u> Policy requirement and to approve travel after the travel has been completed. Furthermore, during a recent Board meeting on the $10,000 limit for in-state travel, there was discussion that it is Board members' right to be reimbursed up to $10,000 annually for travel without pre-approval and the $10,000 is not intended to be a limit. A flexible policy, and financially unconservative tone at the top appear to minimize the importance of ensuring that travel costs are reasonable.

<u>Unclear Language</u>

The Policy indicates that additional travel expenses incurred before or after an event (e.g., arriving a day early or leaving a day late) will be reimbursed if reasonably necessary but does not establish criteria for 'reasonableness'. Similarly, while the Policy allows travelers to use business class or equivalent in certain instances, the Policy does not identify the 'equivalent' of business class, which is sometimes interpreted as first class. However, there are significant cost differences between the two classes.

The Policy also requires the lowest available airfare offered by United, American <u>or</u> Delta implying that the traveler may choose the lowest cost airfare of any one of the three carriers, rather than the lowest cost overall. In addition, the Policy indicates that travel to Mexico/Canada is international travel deserving business class air travel, whereas the same Policy indicates that training in Mexico/Canada is not considered international for purposes of educational conference limits.

<u>Centralized Travel Process</u>

LACERA does not have a centralized travel processor, or an independent vendor that provides travel related services to help ensure consistent Policy compliance. In comparison, the County mandates that all County-related business travel be arranged through a County-approved travel agency.

Recommendations

LACERA Boards/management consider:

13. Revising the Travel Policy to ensure it is clear, well-defined, and includes cost control measures such as:

   a) More stringent requirements on pre-approval, lodging costs, incidental costs, and the use of business class.
   b) Requiring travelers to obtain the lowest overall price amongst major carriers.
   c) Prohibiting per diem reimbursements when meals are provided by the hotel/conference or during a flight.

14. Implementing an in-house centralized travel process, or contract with an independent vendor to provide travel related services.

Training Policy

Similar to the travel policies, the revised training policies appear to lack key controls and do not comply with best practices established by other public employee retirement agencies, the County, and/or LACERA IA's recommendations in the following areas:

Proof of Attendance

Proof of attendance is not required for educational conferences and administrative meetings. Four of the five agencies we benchmarked require a full report for conferences/meetings to promote information sharing amongst peers, to identify conferences/meetings that would be beneficial in the future, and to ensure attendance at the event.

Cost Effectiveness

We noted that the Policy does not establish guidelines for the cost and number of administrative meetings (legislative advocacy, speaking engagements, networking opportunities, etc.) that Board members may attend. The Policy does limit Board members to attend four educational conferences if serving on one Board or six if serving on both Boards. However, we noted that the updated Policy now allows two educational conferences to be counted as one when they are held within two days of each other and do not require additional transportation costs. It should be noted that some of these educational conferences cost as much as $10,000 per person for registration, and additional lodging and related expenses would also be incurred. Although LACERA recently revised the Policy and reduced the number of allowable educational conferences due to concerns over travel and training costs, allowing two conferences to count as one conference appears counterproductive.

We also noted that LACERA's Policy does not promote cost effective training (in-house, local, or web-based training) whenever possible. In comparison, the County encourages e-learning whenever possible.

Educational Strategies/Goals

Although the Boards comply with CERL, which requires Board members to complete 24 hours of education every two years, LACERA's revised Policy still does not require Board members to establish specific educational strategies/goals for individuals or the organization. Reported best practices (i.e., *Clapman Report 2.0 Model Governance Provisions to Support Pension Fund Best Practice Principles*) and some of the agencies that we benchmarked encourage Board members to establish specific educational strategies/goals.

We noted that the recommendation to establish education strategies/goals was included in IA's June 2019 report. However, LACERA Boards have not taken corrective action to address the recommendation. Establishing specific strategies/goals for LACERA Board members and staff should help ensure that training costs and related travel expenses are justified and coincide with overall strategies/goals.

Recommendations

LACERA Boards/management consider:

15. **Requiring conference/meeting attendees to submit proof of attendance, report back on conference/meeting, and seek reimbursement for any meeting or travel costs if attendance is not supported or documented.**

16. **Revising the Education and Travel Policy to ensure that the number of educational conferences reported accurately reflects the number of educational conferences attended and provide clear guidelines for the number and cost of administrative meetings.**

17. **Establishing a policy to promote cost-effective training (in-house, local, web-based) whenever possible and practical.**

18. **Developing organizational and/or individual training/education goals and develop a process to periodically evaluate and update progress towards the goals.**

Technology Efficiency

During our review, LACERA management/staff indicated numerous areas where software/applications or connectivity can significantly improve efficiencies and/or provide better member services. Insufficient technology resources can result in inefficient use of resources and circumvention of internal controls. LACERA management/staff indicated

that these issues had been discussed in the past but have not been adequately resolved to meet end-user needs. Some of their suggestions include:

- **Case Management System (CMS)** – In October 2013, LACERA held a kick-off meeting to discuss a CMS. LACERA recognized that a comprehensive CMS would allow management/staff to track workflow, identify bottlenecks, calculate performance metrics, and maintain documentation from the beginning of a case to the end under one database, rather than manually updating and tracking cases and benefits over ten separate databases.

  As of October 2019, LACERA had not purchased or implemented a CMS and Systems management indicated that they will begin coding for a new CMS in 2020. In addition, LACERA management had not prepared detailed planning documentation specifying project timeline, scope, budget, and objective, etc. or to ensure functionality meets users' needs. Having a complete planning document for a significant system improvement would increase accountability and help ensure timely implementation.

- **Automated accounts payable system** – In 2018, an independent auditor recommended an automated system to ensure payments are appropriately approved. LACERA management indicated this project is in the preliminary research phase and no timeline for implementation has been established.

- **Member Services field connectivity** – Member Services staff indicated they cannot efficiently respond to specific member questions while they are in the field because they do not have access to their work applications. LACERA management indicated staff are not given access to their work applications offsite due to security concerns. However, many organizations have implemented two-factor authentication or other measures to ensure offsite security for sensitive information.

- **Budgeting software** – Administrative Services Division prepares the budget using over 100 Excel worksheets that cannot readily produce reports or integrate to the accounting software. As a result, LACERA cannot generate basic budget related reports (e.g., budget to actual expenditures) without labor-intensive manual entries.

- **Interactive training/eLearning** – Quality Assurance and Metrics Division (QA) instructors use PowerPoint presentations to train new Retirement Benefit Specialist (RBS) staff in a year-long training program. Management indicated that QA instructors and RBS trainees can benefit from self-training with interactive training modules that cost less than $5,000.

- **Electronic access to Board meetings** – The Boards do not live-stream or digitally archive meetings for staff and public access. LACERA management/staff indicated this impacts their ability to respond timely to Board discussions.

Some of the software/applications and lack of field connectivity may potentially be attributable to the staffing and vacancy issues in Systems discussed in the section below.

Recommendation

19. LACERA Boards/management consider working with divisions to determine technology needs, strategically evaluate and prioritize competing needs, and periodically re-assess and update the status of technology projects.

Systems Division

Every division within LACERA requires Systems' support to complete their duties efficiently and effectively. Systems oversees more than 20 separate business processes including: application and web development/maintenance, cybersecurity, Information Technology (IT) hardware, security (surveillance cameras and keycard access), telecommunications, help desk, mobile device (cell phones, tablets, etc.) management, and updating bank signatories.

Staffing and Vacancies

It appears Systems must manage multiple competing priorities with insufficient staffing. For the three years reviewed (FY 2015-16 through FY 2018-19), Systems vacancies increased from 12 to 15 positions. In FY 2019-20, Systems budget indicates that 20 (35%) of Systems' 57 budgeted positions are vacant. The staffing shortage may have been partially offset by nine IT professionals contracted between 1991 and 2018.

LACERA Systems management indicated they have difficulty filling positions because they cannot compete with private IT related companies to recruit high-level staff with the necessary qualifications and expertise. However, as discussed further below, LACERA's IT staff hiring practices appear to have been passive, and do not support Systems management's assertion that they are having difficulty filling the positions due to competition.

Although LACERA management indicated their systems and IT staff requirements may not be directly comparable to the County's, we noted the County's Internal Services Department and Auditor-Controller's Systems Division do not experience similar shortages or recruiting difficulties in their IT staffing.

Recruitment Practices

We discussed Systems vacancies with LACERA's HR and Systems management. Systems management indicated that Systems generally hires temporary agency staff. When Systems wants to permanently hire agency staff, they write the examination's desirable qualifications to meet the candidates' abilities and open the examination for a limited time, so they can manage the candidate pool.

We verified the practice by reviewing LACERA's examination logs from January 1, 2016 through September 17, 2019, and noted that during the 44-month period, LACERA opened two competitive IT exams for a combined total of 82 hours (17 hours for Data

Systems Analyst, 65 hours for Data Systems Coordinator). In addition, even though the examinations were supposed to be 'open competitive' meaning they were open to everyone, Systems' desirable qualifications are so specific that most candidates outside of LACERA do not qualify. For example, exams are weighted 100% on application information and desirable qualifications included:

> "*Three or more years' experience training LACERA staff and Board members on how to use mobile devices…"*
>
> "*Demonstrated knowledge of the Countywide payroll and LACERA payroll batch processing*."

We noted that there were 774 views on the two job postings, but only 23 candidates applied. As stated earlier, this hiring practice does not support Systems management's assertion that they cannot fill the vacancies since they are unable to compete with private IT companies. Inadequate outreach and recruitment efforts limits Systems ability to attract necessary and qualified staff, and complete critical IT assignments.

We followed up with Systems management to inquire as to why they did not aggressively recruit more staff, but management could not provide a valid reason other than indicating that the exam process is HR's responsibility.

Recommendations

LACERA Boards/management consider:

20. Implementing procedures to ensure examinations provide an equal opportunity to all qualified applicants and do not provide an unfair advantage to pre-selected candidates.

21. Ensuring that Systems Division and Human Resources Division work together to develop a plan for outreach and recruitment.

Job Assignments and Separation of Duties

Some Systems staff's duties do not appear to correspond with Systems' core job functions. For example, a Systems manager is assigned to update bank signatories. Signature cards identify the rightful signers for bank accounts and updating signatories is usually the responsibility of the Chief Financial Officer or the Chief Investment Officer. However, LACERA does not have a formal written policy to indicate who should be responsible for updating bank signatories.

In addition, Systems management indicated that they structurally separate duties to minimize the risk that staff can access and/or change critical systems, but Systems has no formal policies. We requested a list of access roles to Systems' applications/software (Microsoft Office 365, Workspace, Member Portal, HR Data, etc.) to verify if they

sufficiently separated duties and restricted access as appropriate. However, Systems management declined to provide a list, citing security concerns that information could be used to exploit LACERA's systems. Systems management subsequently provided a self-assessment report for financial software that they completed at the request of LACERA's external auditors. The report indicates that Systems management is willing to accept the risk where there is an insufficient separation of duties. We believe the decision to accept the risk due to insufficient separation of duties should be made by the Boards or the CEO.

Recommendation

22. LACERA management consider establishing a process to periodically complete a documented review of Systems Division's applications and system access roles to ensure that roles are appropriate, and duties are adequately separated.

- **If duties cannot be sufficiently separated, consider implementing alternative controls, including staff rotation, and evaluate and document the Boards' and executive management's risk appetite.**

Independent Information Technology Review

As discussed, we noted a number of areas where LACERA can potentially improve its overall Systems related operations and efficiencies. Since Systems Division is already facing staffing issues, it may be beneficial for LACERA to consider obtaining an independent consultant to complete an IT review. An independent review will bring in an outside perspective, may be able to identify problems that employees who are too close to the process/issues may not see, and ensure objectivity. To further ensure objectivity, LACERA management should consider hiring an independent consultant to develop a Request-for-Proposal (RFP) including a Statement of Work, based on input from LACERA management/staff.

Recommendation

23. LACERA management consider obtaining an independent consultant to draft a Request-for-Proposal including Statement of Work and complete an independent information technology review that includes:

a) IT resources and efficiency, including work-related applications.
b) Operational efficiency and appropriate job functions.
c) IT staffing assessment.
d) Span of control and separation of duties.

120-Day Temporary Assignments

Civil Service rules indicate that a retiree may be reinstated to a 120-day temporary assignment if the retiree possesses special skills or knowledge. Management is

encouraged to develop a transition plan to ensure that the retiree's special skills/knowledge are transferred to current employees and the retiree is returned to their retirement.

LACERA reinstated two retirees on 120-day temporary assignments seven and 12 years ago but has not established transition plans to ensure the retirees can be returned to their retired status. One of the retirees was reinstated in 2006 to train her successor. In FY 2018-19, the retiree accumulated $30,000 in travel/training expenses while assisting her successor.

Lack of transition plans increases the risk of excessive costs and inefficient use of resources, ineffective succession planning, and reliance on the institutional knowledge of retirees.

Recommendation

24. LACERA management consider developing transition plans for 120-day temporary employees and implement a process to periodically review and update transition plans as needed.

Keycard Access

LACERA's headquarters is open to the public from 6 a.m. to 6 p.m. LACERA uses keycards to prevent unauthorized access to their business operations. Inadequate controls over keycards increases the risk of unauthorized access to LACERA's assets and confidential/sensitive information.

Systems is responsible for adding, deleting, and updating keycard access to the LACERA offices. Systems management indicated they work with HR to ensure keycard access is appropriately maintained and periodically reconciled. However, we noted the reconciliation was limited to reviewing access to the parking garage and did not include the office keycards.

Systems management indicated they do not periodically reconcile keycard access to ensure only approved staff/contractors have access to the LACERA offices because they do not want to remove access in error. We requested a list of keycard holders to verify that current cardholders are authorized to access LACERA offices, but Systems management declined to provide a list citing security concerns.

Recommendation

25. LACERA management consider developing processes to periodically reconcile keycard access and remove or update access when it is no longer needed or appropriate.

Policies and Procedures

Policies and procedures should provide detailed guidance to staff and supervisors in the performance of their day-to-day duties and describe how processes are performed. Having updated and uniform policies and procedures are critical for ensuring LACERA's processes are consistent, and staff perform duties adhering to established policies/procedures and internal controls.

We noted that some of LACERA's policies and procedures are outdated, incomplete or inconsistent. For example, LACERA does not have a policy to describe how Board members should request/obtain equipment. As a result, the process is not consistent, making it difficult to track Board members' equipment.

Additionally, LACERA's January 2010 Information Technology Policies, Email/Electronic Use Policy (e-mail Policy) lacks key controls to limit who can access to view employee e-mails. The e-mail Policy indicates that employees' e-mail may be accessed with management consent but does not require documented justification (e.g., suspected fraud), does not identify the level of management with the authority to request access, or how the request should be documented.

Although LACERA management indicated that it is understood the request to access employee e-mails must come from the Legal Division, as currently written, any manager may request access to staff e-mails or a Systems manager may self-approve access to other employees' e-mails.

In addition, LACERA does not have up-to-date written procedures or policies related to a number of issues we discussed above, including bonuses, offsite meetings, wireless device inventory/reconciliation, keycard controls, etc. Our interviews with LACERA management/staff indicated that LACERA may 'selectively' follow the County's policies and procedures (e.g., HR policies), but complying with policies or procedures should not be flexible. Some of the issues we identified may have been prevented if LACERA maintained current and comprehensive organization-wide policies and procedures similar to the County's Fiscal Manual that all County departments are required to follow.

Recommendation

26. LACERA Boards/management consider developing organization-wide policies and procedures inclusive of all administrative functions/duties and periodically review and update policies and procedures.

Other Matters

As part of assessing processes and controls over administrative accounts, we interviewed over 25 LACERA key personnel and Board members. While this sample was limited and not intended to be representative of LACERA as a whole, several interviewees voluntarily

reported an environment of excessive spending, entitlement, favoritism, and fear of retaliation and indicated that LACERA's organizational culture should be improved.

Several interviewees indicated they were reluctant to speak with us and preferred to meet offsite because they feared retaliation. The interviewees believed they were constantly being monitored with security cameras, or their e-mails and phone lines were inappropriately accessed, and meeting rooms were not secure. Although we did not attempt to verify their retaliation claims, the fact that several management/staff requested offsite meetings appears to support interviewees' concerns that the fear of retaliation exists.

Several interviewees also indicated that LACERA's fraud hotline is not working as intended and callers' confidentiality may not be protected. Although we also did not attempt to verify those claims, IA management indicated the hotline received only one complaint over a six-month period. However, given that we received several requests for an offsite meeting during our review, one call over a six-month period appears to support the interviewees' concerns that they do not trust the hotline process. LACERA management indicated they are aware of this perception of caller confidentiality not being protected and is in the process of contracting with an independent vendor to operate the hotline and ensure anonymity.

In addition, Board members have served LACERA for up to 18 years and some interviewees reported that certain members may have developed close personal relationships with management and staff. Multiple interviewees reported favoritism between certain Board members and management/staff. Interviewees indicated that the favored management/staff have increased access to confidential information and promotional opportunities. While we did not attempt to verify interviewees' claims, we did note that in 2019, the Board downgraded the minimum requirement for the CEO so that the position no longer required a bachelor's degree. Some interviewees believe the requirement was downgraded so that Board members would be able to select a favorite manager who did not have a bachelor's degree.

During our review, LACERA management informed us that in July 2019 they started the RFP process for hiring a consultant to review their work culture. LACERA management should consider sharing our report with the consultant to ensure that the consultant becomes aware of some of the issues (e.g., perceived e-mail confidentiality) we discussed above that may impact the consultant's review.

Recommendations

27. LACERA Boards/management consider sharing our report with the proposed contractor prior to the engagement to review LACERA's work culture.

28. LACERA Boards explore term limits for Board members.

LACERA
Los Angeles County Employees Retirement Association
300 N. Lake Ave., Pasadena, CA 91101 / PO Box 7060, Pasadena, CA 91109-7060 / www.lacera.com / 626/564-6000

November 8, 2019

Arlene Barrera, CPA
Auditor-Controller
Los Angeles County
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 525
Los Angeles, California 90012
abarrera@auditor.lacounty.gov

Dear Ms. Barrera:

Thank you for providing LACERA with the opportunity to read the report on your office's review of our organization. This letter and its attachment constitute LACERA staff's comments, and, like the report itself, they have not yet been reviewed by the Board of Retirement and Board of Investments.

Government Code Section 31593 permits the County to audit "the accounts of the retirement system." While we believe the review went beyond this scope by addressing non-financial issues, LACERA is a transparent organization and cooperated fully and openly with the County review team within applicable law. After many weeks of work, the County report identifies subjects that already have been and continue to be considered by LACERA's Boards and/or staff. Importantly, the review findings do not dispute that LACERA is effective in serving its members and managing the organization to provide the promised benefits in a timely manner.

It is significant that, before the County review began, LACERA had identified for review and evaluation each of the subject areas addressed in the report as part of LACERA's ongoing program of self-evaluation and process improvement. LACERA voluntarily identified these subjects, among others, to the County review team at the beginning of their work as matters already under current internal consideration.

LACERA is an independent public agency from the County. While LACERA does not agree with many of the specific findings (and it is not possible to address all of them in these responses), LACERA will evaluate the report as the organization continues to update its processes and policies. LACERA always strives to align fund administration with the best interests of its members. The County report will be shared with the Board of Retirement and management as a priority matter for consideration; the report will also be provided to the Board of Investments.

In addition, effective November 16, 2019, the LACERA Boards appointed a new Chief Executive Officer, Santos H. Kreimann, who brings almost 30 years of experience with the County of Los Angeles in positions of responsibility in the County Chief Executive Officer's Office, the Assessor's Office, the Beaches & Harbors Department, and other parts of County government. Mr. Kreimann provides management expertise, and a track record of success, in budgeting, strategic planning, human resources, information

technology (IT) systems, and other administrative functions that directly relate to many of the review findings. Mr. Kreimann will apply his knowledge and expertise in reviewing the County report and evaluating LACERA's processes to implement further checks and balances as needed.

LACERA provides additional comments in the attachment with respect to each subject category in the County report.

LACERA requests that this letter and its attachment be included as part of the final report.

Very truly yours,

Steven P. Rice
Chief Counsel

Attachment

LACERA'S RESPONSE TO SPECIFIC COUNTY RECOMMENDATIONS

Budget and Expenditures – County Recommendations

LACERA Boards/management consider:

1. **Analyzing LACERA's administrative costs, evaluating other public employee retirement agencies' administrative costs, and adopting best practices to be more cost efficient.**

2. **Implementing processes to ensure expenditures are reported in units/ divisions where they are incurred.**

   LACERA's Response: LACERA's strategic planning and budgeting process takes into account the unique needs of LACERA as one of the largest retirement systems in the country, serving over 170,000 members. As the County's review found, LACERA's budget and expenses are well within the statutory limit, and the percentage increase of LACERA's expenditures is within the range of other public pension systems. LACERA also routinely reviews the accounts to which expenditures are allocated; this is a normal part of LACERA's process.

   Each year, LACERA's proposed budget is reviewed by the Boards at multiple public budget hearings and other meetings. The proposed budget is publicly available to all stakeholders and open to comment each year before the budget is approved. This process ensures transparency. In the current 2019-2020 budget process, as in prior years, the Boards actively discussed the budget before it was approved, in the diligent performance of their fiduciary duty, and provided staff with specific input and direction for the current budget and future budget cycles.

   In the Joint Organizational Governance Committee (JOGC) Charter approved in May 2019, the LACERA Boards directed that, in the future, staff prepare a three-year strategic planning and annual budgeting process for JOGC approval to guide the Boards' consideration of these issues. This process will be utilized in the 2020-2021 budget cycle and thereafter, and will further enhance LACERA's already solid financial management. LACERA's new CEO has expertise in budgeting and expense management, and will separately review existing processes to ensure LACERA is providing the best possible service to the members.

   LACERA will present the County report findings and recommendation nos. 1-2 to the Boards and management.

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Spending Practices – County Recommendation

3. **LACERA Boards/management consider re-examining its administrative spending and issue a memo to all LACERA Board members and staff to reinforce the organization's commitment to upholding their fiduciary obligation.**

   LACERA's Response: LACERA's spending is based on a commitment to the organization's fiduciary duty and is reinforced to staff by management on a regular basis. Spending is pursuant to the sound budget process described above. The four spending categories listed in this section were identified to the County review team by LACERA as matters already under current consideration by LACERA. LACERA will present the County report findings and recommendation no. 3 to the Boards and management.

Offsite Board Meetings/Retreats – County Recommendations

LACERA Boards/management consider:

4. **Evaluating benefits and costs of Board and management offsite meetings/retreats and implementing changes to reduce associated costs.**

5. **Adopting similar offsite meeting/retreat policies as the County.**

   LACERA's Response: Board and staff offsites are a prudent and common practice to permit trustees and staff to provide an extended opportunity, not possible during regular Board meetings, to discuss strategic issues in detail, receive extensive updates from staff on initiatives and plans, and hear from outside experts within a focused environment that facilitates discussion among trustees in the exercise of their fiduciary duty. Board members do not maintain offices at LACERA, and therefore offsites are a practical and efficient method of providing for interaction and discussion between Board members and staff. For these reasons, LACERA's offsites have great fiduciary value to the organization, which outweighs the cost of the events.

   Historically, LACERA held one three-day offsite for both the Board of Retirement and Board of Investments. However, in recent years, to enhance the opportunity for Board members to have the positive experience described above, the schedule was changed to provide separate two-day offsites for each Board to focus on matters within their different areas of interest. This decision has proved successful in improving the value of the offsites.

   LACERA will present the County report findings and recommendation nos. 4-5 to the Boards and management.

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<u>Bonus Monitoring and Oversight – County Recommendations</u>

LACERA Boards/management consider:

6. **Establishing written policies/procedures to ensure that bonuses are implemented timely and adequately documented, and to periodically review all bonuses to ensure continued eligibility.**

7. **Developing bonus reports to improve bonus monitoring and oversight.**

8. **Reviewing all bonuses, cancel bonuses that are no longer applicable, and seek recovery for any overpayments.**

9. **Working with the County of Los Angeles Chief Executive Office to ensure budgeted positions align with job assignments.**

   LACERA's Response: The bonuses referenced in the retroactive bonuses section were supported with appropriate documentation detailing the reason for the bonuses before the bonuses were approved. Human Resources also performed case analysis to support the bonuses prior to approval.

   Bonuses were identified by LACERA to the County review team as a matter already under current consideration by the organization. In June 2019, the LACERA Executive Office instituted a practice of limiting Additional Responsibility (AR) bonus requests, when granted, to six months, and placing all ARs on a six-month review cycle, with renewed justification required for extension. Additional information on bonuses is also now requested to support AR requests before Executive Office approval. LACERA's existing practice also includes recovery of bonus overpayments. Human Resources is developing a written Bonus Review and Approval Policy.

   LACERA will present the County report findings and recommendation nos. 6-9 to the Boards and management.

<u>Wireless Devices and Equipment Management – County Recommendations</u>

LACERA Boards/management consider:

10. **Implementing procedures to periodically reconcile wireless devices, assigned users, and wireless bills.**

11. **Implementing procedures to periodically inventory all equipment, investigate any missing items, and maintain documentation.**

12. **Identifying all equipment assigned to Board members and staff, evaluate reasonableness, and establish policies and procedures related to equipment**

assignments, specifying the equipment type and quantity allowed per Board member/staff.

LACERA's Response: LACERA's periodically reviews its wireless device assignments against wireless bills. An inventory of equipment and devices assigned to Board members and staff is currently in progress as part of a larger organizational inventory; the inventory is reconciled and discrepancies investigated. LACERA will present the County report findings and recommendation nos. 10-12 to the Boards and management.

<u>Travel/Training – Travel Policy – County Recommendations</u>

LACERA Boards/management consider:

13. **Revising the Travel Policy to ensure it is clear, well-defined, and includes cost control measures such as:**
    a) **More stringent requirements on pre-approval, lodging costs, incidental costs, and the use of business class.**
    b) **Requiring travelers to obtain the lowest overall price amongst major carriers.**
    c) **Prohibiting per diem reimbursements when meals are provided by the hotel/conference or during a flight**

14. **Implementing an in-house centralized travel process, or contract with an independent vendor to provide travel related services.**

    LACERA's Response: Education is necessary to enable Board members and staff to perform their fiduciary duties. In June 2019, LACERA's Internal Audit Division issued a report stating the results of a regular periodic audit of Board member and staff education and travel, pursuant to LACERA's Education and Travel Policy and best practices. In August 2019, the Boards substantially revised and improved the Education and Travel Policy. It was stated in connection with the recent revisions that the Boards would further review the policy, including the recommendations of the internal audit report, at upcoming meetings. In addition, in August 2019, the Board of Retirement authorized an external review of travel expenses and practices, including the policy; the external review is in progress. LACERA will present the County report findings and recommendation nos. 13-14 to the Boards and management.

<u>Travel/Training – Training Policy – County Recommendations</u>

LACERA Boards/management consider:

15. **Requiring conference/meeting attendees to submit proof of attendance, report back on conference/meeting, and seek reimbursement for any meeting or travel costs if attendance is not supported or documented.**

16. **Revising the Education and Travel Policy to ensure that the number of educational conferences reported accurately reflects the number of educational conferences attended and provide clear guidelines for the number and cost of administrative meetings.**

17. **Establishing a policy to promote cost-effective training (in-house, local, web-based) whenever possible and practical.**

18. **Developing organizational and/or individual training/education goals and develop a process to periodically evaluate and update progress towards the goals.**

    LACERA's Response: Training is addressed in LACERA's Education and Travel Policy. The response from the preceding section also applies here. LACERA will present the County report findings and recommendation nos. 15-18 to the Boards and management.

<u>Technology Efficiency – County Recommendation</u>

19. **LACERA Boards/management consider working with divisions to determine technology needs, strategically evaluate and prioritize competing needs, and periodically re-assess and update the status of technology projects.**

    LACERA's Response: Technology needs are strategically evaluated, organization-wide and on a division-by-division basis, during the annual strategic planning and budgeting process. In addition, technology needs are considered on a continuous basis, and improvements are underway. LACERA identified technology to the County review team as a subject matter already under consideration. LACERA will present the County report findings and recommendation no. 19 to the Boards and management.

<u>Systems Division – Staffing and Vacancies – County Recommendations</u>

LACERA Boards/management consider:

20. **Implementing procedures to ensure examinations provide an equal opportunity to all qualified applicants and do not provide an unfair advantage to pre-selected candidates.**

21. **Ensuring that Systems Division and Human Resources Division work together to develop a plan for outreach and recruitment.**

    LACERA's Response: LACERA managers initiate the hiring and recruiting process based on their individual assessment of needs for that division. Once initiated the Human Resources Division works with the management team to effect the recruitment in a successful manner. This subject was identified by LACERA to

the County review team as a matter already under current consideration. Human Resources is available to work with any division to conduct recruitments as needed. LACERA will present the County report findings and recommendation nos. 20-21 to the Boards and management.

Systems Division – Job Assignments and Separation of Duties – County Recommendation

22. LACERA management consider establishing a process to periodically complete a documented review of Systems Division's applications and system access roles to ensure that roles are appropriate, and duties are adequately separated.

- **If duties cannot be sufficiently separated, consider implementing alternative controls, including staff rotation, and evaluate and document the Boards' and executive management's risk appetite.**

LACERA's Response: The Systems Division, in conjunction with other divisions, appropriately separates duties. LACERA's systems, finances, and processes are secure; data and information security is a top priority of the organization. Financial integrity is also critical. Members and the public can have confidence that LACERA information and finances are secure and well-managed. LACERA's Internal Audit Division periodically conducts audits of the Systems Division and the processes under the System Division's oversight, as well as the processes of other divisions. LACERA will present the County report findings and recommendation no. 22 to the Boards and management.

Systems Division – Independent Information Technology Review – County Recommendation

23. LACERA management consider obtaining an independent consultant to draft a Request-for-Proposal including Statement of Work and complete an independent information technology review that includes:

a) IT resources and efficiency, including work-related applications
b) Operational efficiency and appropriate job functions.
c) IT staffing assessment.
d) Span of control and separation of duties.

LACERA's Response: LACERA will present the County report findings and recommendation no. 23 to the Boards and management.

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120-Day Temporary Assignments – County Recommendation

24. LACERA management consider developing transition plans for 120-day temporary employees and implement a process to periodically review and update transition plans as needed.

LACERA's Response: LACERA identified this issue to the County review team as a matter already under current consideration. Human Resources is developing a written 120-day employee transition policy. LACERA will present the County report findings and recommendation no. 24 to the Boards and management.

Keycard Access – County Recommendation

25. LACERA management consider developing processes to periodically reconcile keycard access and remove or update access when it is no longer needed or appropriate.

LACERA's Response: Access to non-public areas of LACERA's offices are secure. LACERA will present the County report findings and recommendation no. 25 to the Boards and management.

Policies and Procedures – County Recommendation

26. LACERA Boards/management consider developing organization-wide policies and procedures inclusive of all administrative functions/duties and periodically review and update policies and procedures.

LACERA's Response: LACERA has existing policies, procedures, and processes regarding the development of policies and procedures, including a compliance oversight committee, divisional responsibilities, and presentations to the Board of Retirement. LACERA does not "selectively" follow County HR policies. LACERA generally follows County HR policies unless we have developed our own policy. LACERA will present the County report findings and recommendation no. 26 to the Boards and management.

Organizational Culture – County Recommendations

27. LACERA Boards/management consider sharing our report with the proposed contractor prior to the engagement to review LACERA's work culture.

28. LACERA Boards explore term limits for Board members.

LACERA's Response: LACERA has a positive, forward-looking culture among its more than 400 employees, all of whom are dedicated on a daily basis to fulfilling the organization's fiduciary duty and mission to produce, protect, and provide the promised benefits to members. LACERA leadership, including the Boards and

management, supports and nurtures that positive culture. LACERA recognizes that there is always room to improve, and building upon the existing good culture is an organizational focus. The County review findings recognize LACERA's planned retention of an employee engagement consultant as a current activity to further enhance culture. As acknowledged in this report, the review team just spoke to "over 25" employees and Board members (only two of whom were in fact trustees), which the review team notes is a "limited" sample, "and not intended to be representative of LACERA as a whole;" only "several" of this small group of interviewees reported the alleged culture issues. By contrast, LACERA management has spoken to all employees in numerous settings, both recently and over time, to build a culture of good communication, inclusion, and teamwork; management has also recently spoken to over 190 employees in small groups averaging 5-10 staff members. LACERA's positive culture was apparent in these meetings. LACERA does not agree that the statements in the County's report about LACERA culture accurately reflect the positive state of the organization and its staff.

With regard to alleged monitoring of emails, LACERA has caused this issue to be independently investigated and found no evidence to support the allegation based on available administrative logs.

LACERA implemented a new, anonymous Fraud and Ethics hotline managed for confidentiality by a third-party vendor. The new hotline was initiated by Internal Audit. LACERA policies affirmatively encourage employees to report misconduct and concerns of all kinds.

As to the statement regarding favoritism in connection with the CEO recruitment, Mr. Kreimann, the newly appointed CEO, has a bachelor's degree, as did his predecessor. Both Mr. Kreimann and his predecessor were from outside LACERA. The CEO recruiting standards were at no time downgraded.

Terms limits are not provided in governing California law for county pension trustees.

LACERA will present the County report findings and recommendation nos. 27-28 to the Boards and management.